

# In Perspective:

## Recent Changes in Labor Market Trends

Every now and then we as economists stumble across a statistic that makes us go, “hmm.” While we look at many different numbers on any given day, most go by without much interest. However, one particular statistic—the employment to population (e-p) ratio—is provoking head scratching and discussion. This seemingly simple variable, which simply measures the percentage of working people of the entire population, has wobbled quite

substantially since the beginning of the 1991 recession. Indeed, the e-p ratio has slid from a high of 64.7 in April 2000 to a low of 62.0 in September 2003.

The latest data from September 2007 has the nation's e-p ratio at 62.9, an improvement, but still well below the previous high.

Of course, the immediate question that arises is, “so what?” There is a measly 1.8 point difference between the peak and now. That small number hides the true magnitude of the waves it is causing in the nation's labor market. To give us some perspective, let's turn to a small thought experiment. In September 2007 there were roughly 146.3 million workers in the country. If that month's e-p ratio were increased from its reported 62.9 to 64.7, the high of April 2000, what would the impact be? Simply put, the number of people working would rise to 150.4 million—an increase of more than four million workers! Perhaps this explains in part why there is still considerable unease about the nation's economy, even in the face of strong growth. Regardless, the real story only starts here with this surprising finding. There are actually many interesting interior dynamics at play just under the surface.

Clearly, one of those dynamics—as our thought experiment revealed—is that there are potentially some people “missing” from the ranks of the employed. Delving into the data it becomes clear that nearly every major age group, regardless of sex, has seen a drop in their e-p ratio. However, the most obvious decline is for teens ages 16 to 19. Between April 2000 and the present, the e-p ratio for males in this age group has fallen more than 13.0 points, with females posting a 10.2 point slide. After the recession, teens did not reenter the labor market to the same extent as before. Detailed data appears to suggest that the bulk of those teens that have remained outside the labor force are high school students. Why they are not reentering the labor force is unclear. It may be due to stiffer competition from other workers or the desire to spend more time playing video games. Research into this question is ongoing.

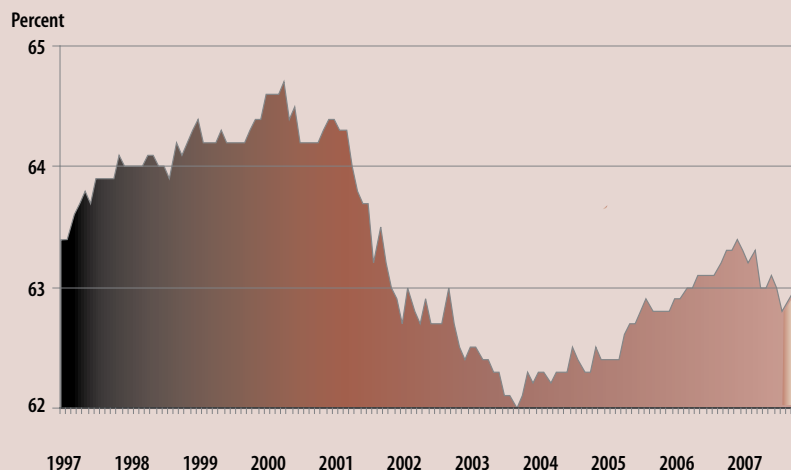
Another important dynamic that is apparent upon digging into the data—but is somewhat lost in the shuffle—is the increasing share of the over-55-year-old population that is working. Obviously with the baby boomers getting older we would expect this age group to swell, but what is interesting is that the e-p ratio of these people has been increasing steadily over the last year. That means, even though the population of this age group is increasing, the number



of workers in this group is growing faster. Of all the age groups studied, the over-55-year-old group—for both sexes—is the only one that shows an increase in its e-p ratio. Why this increase? That too is hard to say. Financial insecurity in the face of retirement, a desire to maintain a professional career, or in the case of women, perhaps just making gains after reentering the labor force after raising children, could all be playing a factor.

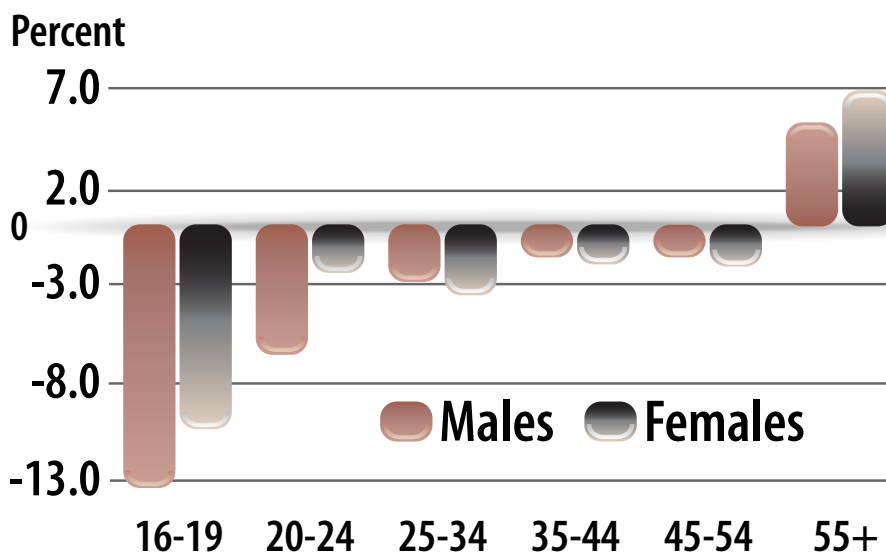
E-p ratios provide us an interesting window into the labor market. Even with changes in the relative size of any given age group, we don't expect the ratio to change dramatically. However, when they do, we do well to pay attention. They might be telling us something. Looking forward, delayed entry into the labor market for teens may be a good or a bad thing. They might spend more time on their studies and thus be more productive when they do get a job. However, they may also miss out on the skill-formation opportunities a job offers for people their age. On the other end of the spectrum, expect to see continued increases in the participation of people older than 55 in the labor market. This will likely be crucial for the economy as these workers hold much of the institutional knowledge in most organization. The loss of which could be problematic for many firms. ①

## U.S. Employment/Population Ratio 1997-2007



*Current Population Survey, Bureau of Labor Statistics.*

## Percent Change in Employment/Population Ratio by Gender and Age Group 2000 - 2007



*Source: Current Population Statistics, Bureau of Labor Statistics.*